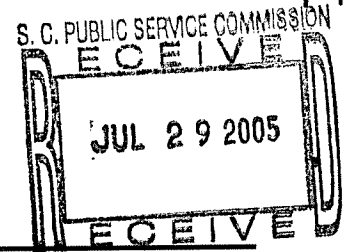


CUC, Inc.

2109 Timberlane Drive • Florence, SC 29506 • Phone 843.669.0130 • FAX 843.669.0135



VIA FEDERAL EXPRESS

July 28, 2005

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
The Public Service Commission of South Carolina
PO Drawer 11649
Columbia, SC 29211

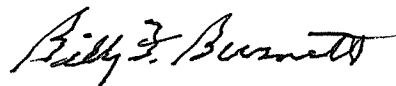
RE: Docket Number 2005-87-W\S

Dear Mr. Terreni:

Enclosed herewith for filing with the Commission, please find twenty-five (25) copies of the prefiled Direct Testimony of Billy F. Burnett and of D. Joe Maready on behalf of CUC, Inc., which testimony is filed pursuant to the Commission's notice dated April 19, 2005 in the above referenced docket.

Should you have any questions with respect to this testimony, please do not hesitate to contact me.

Sincerely yours,



Billy F. Burnett
President

Enclosures

cc: Steven G. Mikell, Esquire
C. Dukes Scott, Esquire
Thomas Potrykus

RECEIVED

JUL 29 2005
PSC SC
DOCKETING DEPT.

7/29/05
tod



RETURN DATE: ok tocl
SERVICE: ok tocl

CUC, INC.

DOCKET NO. 2005-87-WS

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: July 26, 2005

Hearing Date: September 8, 2005

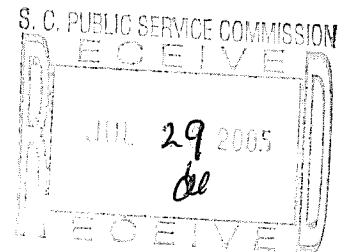
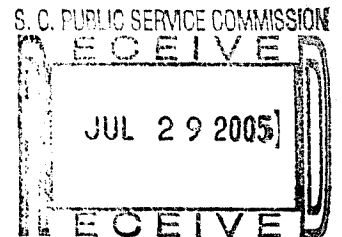
PRE-FILED TESTIMONY

OF

BILLY F. BURNETT

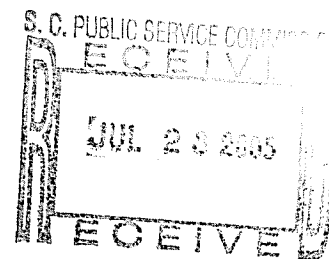
AND

D. JOE MAREADY



THIS TESTIMONY IS FILED PURSUANT TO THE ORDER OF THE PUBLIC SERVICE COMMISSION DATED APRIL 19, 2005. IN ACCORDANCE WITH THE PUBLIC SERVICE COMMISSION'S RULES OF PRACTICE AND PROCEDURE AND THE AGREEMENT OF THE APPLICANT, THE COMMISSION, THE OFFICE OF REGULATORY STAFF, AND THE INTERVENOR, THE APPLICANT RESERVES THE RIGHT TO PROVIDE REBUTTAL TESTIMONY TO THE TESTIMONY PRE-FILED PURSUANT TO SAID ORDER BY THE COMMISSION STAFF, ORS, AND INTERVENORS, AND TO ANY TESTIMONY PROVIDED AT OR BEFORE THE SEPTEMBER 8, 2005 HEARING AND THE AUGUST 8, 2005 PUBLIC "NIGHT" HEARING.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-87-W/S



IN RE:)
)
Application of CUC, Inc. for Adjustment)
of Rates and Charges and Modification)
of certain terms and conditions for the)
provision of Water and Sewer Service)
_____)

DIRECT TESTIMONY

OF

BILLY F. BURNETT

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 **A.** My name is Billy F. Burnett, and my business address is 2109 Timberlane Drive,
3 Florence, South Carolina 29506.
4

5 **Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A.** I am an owner of CUC, Inc. and general manager for its overall operations.
7

8 **Q. HOW LONG HAVE YOU BEEN EMPLOYED OR CONNECTED TO THE**
9 **WATER AND SEWER UTILITY BUSINESS?**

10 **A.** For 52 years.
11

12 **Q. WHAT IS YOUR TRAINING AND WORK EXPERIENCE?**

13 **A.** I first began my employment as a well driller's helper in 1953 by Layne Atlantic
14 Company in Orlando, Florida. Layne was the largest water supply and treatment
15 company on the east coast of the United States at that time. In 1956, I was transferred
16 to Layne's Florence, South Carolina office to work as a Well Driller. I remained
17 employed by Layne until 1970. During my 17 years with Layne, I progressed from
18 Well Driller, to Superintendent, to General Superintendent, to Regional Manager, and

1 then to Vice President of the company. While at Layne, I became responsible for
2 contracting and building various water and wastewater treatment facilities for
3 municipal-owned utilities in North and South Carolina. Also, I was responsible for
4 building and operating several water utilities in the Florence area that were owned by
5 Layne. From 1970 until 1984, I was a Partner and General Manager of BWB, Inc., a
6 utilities construction company performing water and wastewater utilities construction
7 with unlimited licenses in North and South Carolina. Also, during that period, I was
8 the majority partner in a North Carolina regulated water and sewer utility that grew to
9 approximately 5,000 customers prior to being sold to a county-owned utility in 2004.
10 In 1984, I started CUC, Inc. to provide water and sewer service for Callawassie Island
11 and Spring Island, two contiguous islands located in Beaufort County, South Carolina.
12 I have attended many American Water Works Association Conferences over the years,
13 and have completed many computer and software classes that pertain to the water and
14 wastewater business. I presently hold South Carolina Operator Certifications for
15 Grade A Wastewater Treatment and Grade D Water Treatment.

16
17 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT**
18 **POSITION?**

19 **A.** My responsibilities include the day to day overall management and oversight of the
20 Applicant's water distribution and wastewater collection and treatment systems and
21 supervision of environmental compliance. Additionally, I am involved with customer,
22 vendor and contractor relations as well as maintaining the company customer billing
23 software system. I also oversee the administrative staff in its work including customer
24 billing and bookkeeping.

25
26 **Q. WHO ARE THE OTHER OWNERS OF CUC, INC.?**

27 **A.** My daughter, Susan B. Mikell, and I are equal Shareholders and own all the stock of
28 the company.

29
30 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

1 A. The purpose of my testimony is to provide the Commission with an overview of the
2 Applicant and its operations, and a description of the areas in which the Company is
3 authorized to provide service. I will also provide a full explanation of why the
4 Company has a clear need for the rate relief requested.

5
6 **Q. ARE THERE ANY EXHIBITS THAT YOU WOULD LIKE TO**
7 **INCORPORATE INTO YOUR TESTIMONY AT THIS TIME?**

8 A. Yes there are. At this time, I would like to incorporate the Application filed in this
9 proceeding with the Commission, along with all of its accompanying exhibits and
10 amendments, as well as all responses filed by the Company prior to this hearing.

11
12 **Q. WHEN DID CUC LAST HAVE ITS RATES MODIFIED?**

13 A. In 1993. Our current application for rate relief is only the second since the Company
14 was formed in 1985.

15
16 **Q. WHAT MAJOR FACTORS HAVE CONTRIBUTED TO THE NEED FOR**
17 **RATE RELIEF?**

18 A. The costs of operating the water and wastewater systems have increased at a
19 significantly higher rate than the growth of revenues to the extent that CUC is
20 operating at a considerable deficit. While CUC has had considerable customer growth
21 since its last rate case in 1993, the cost to operate has far out-paced revenues. There
22 are new major items of expenses that CUC was not incurring in 1993, but are now
23 contributing to the deficit. One item is the significant increase of flows into the
24 wastewater treatment plants requiring the sludge by-products to be hauled and
25 processed at the Beaufort Jasper Water and Sewer Authority sludge processing plant.
26 This has become a considerable expense and is continually growing. Another item is
27 the 401K Retirement Plan which the Company has implemented for its employees.
28 The company simply can not get and keep good operators without such a plan. Also,
29 the number of employees required to operate the systems has increased due to
30 customer growth and the aging of the systems. Periodic employee raises have been
31 given in an effort to maintain our valued employees, so that, coupled with the need for

1 additional employees, has raised our labor costs significantly. Insurance and fuel costs
2 have soared, which in turn, drives up the costs of all goods and services. Additionally,
3 customer consumption is down.
4

5 **Q. HAS THE WHOLESALE RATE FOR PURCHASED WATER FROM**
6 **BEAUFORT-JASPER WATER & SEWER AUTHORITY (BJWSA)**
7 **INCREASED RECENTLY?**

8 **A.** Yes, the rate is rising to \$1.64 per thousand gallons effective July 1, 2005. It was
9 previously \$1.40 per thousand, so that is an increase of 17% for purchased water. The
10 notification of this increase occurred after our Application was submitted, so this
11 increase was not included in the Application. However, it is a known and measurable
12 expense and should most definitely be included in any rate calculations.
13

14 **Q. HAVE THERE BEEN ANY OTHER KNOWN AND MEASURABLE**
15 **INCREASES SINCE THE APPLICATION WAS FILED?**

16 **A.** Yes, our sludge hauling expenses have increased from \$.04 cents to \$.06 cents per
17 gallon, a 50% increase. Our sludge processing fee by Beaufort Jasper Water & Sewer
18 Authority has increased from \$475 per ton to \$500 per ton, a 5.3% increase.
19

20 **Q. PLEASE COMMENT ON THE AMOUNT OF INCREASE IN WATER AND**
21 **SEWER RATES REQUESTED BY CUC.**

22 **A.** CUC has not requested or received a rate increase since 1993. In contrast, many of the
23 larger utility companies have a policy of requesting an increase every two or three
24 years and some make these requests even more frequently. When a company adheres
25 to such a rate strategy, its customers are not exposed to what some characterize as the
26 "rate shock" of less frequent increases that are larger in magnitude. At first glance, the
27 customers receiving the less frequent but larger rate increases may seem more
28 disadvantaged than customers who arrive at the same rate through several smaller rate
29 increases. In fact, the exact opposite is true. Over time, the customers whose rates
30 have increased more frequently actually pay more total dollars for their utility service.
31 This is true, because the customers whose rates have increased to the same level

1 through a single larger jump reap the considerable economic savings of receiving
2 service in the years between rate increases at the lower old rate, rather than the
3 constantly increasing incremental rates. In the case of CUC, customers have received
4 service for over 12 years at the lower 1993 rate instead of the incrementally higher
5 rates that would have been caused by more frequent increases. Also, the expense for
6 filing and obtaining a rate increase must be factored into the expenses of the utility.
7 Obviously, more frequent filings result in the need for higher rates.
8

9 **Q. PLEASE EXPLAIN TO THE COMMISSION WHY THIS RATE RELIEF IS**
10 **NECESSARY FOR CUC.**

11 **A.** CUC is experiencing an insufficient level of earnings, in view of the legal
12 requirements with which it must comply, and is desperately in need of rate relief. An
13 increase in rates is necessary in order to allow the Company to continue funding its
14 operations.
15

16 **Q. ARE THE RATES AND CHARGES FAIR, RESONABLE, AND NECESSARY**
17 **IN ORDER FOR THE COMPANY TO CONTINUE TO PROVIDE A SAFE**
18 **AND RELIABLE WATER AND WASTEWATER SERVICE?**

19 **A.** Yes. In order to keep providing the services which we have been providing, and to
20 comply with the conditions of its various regulatory requirements, CUC must have
21 rate relief. CUC believes that the proposed rates fairly distribute the cost to the
22 consumer of providing those services, while at the same time placing the Company on
23 a more solid financial footing, allowing the Company to perform necessary
24 maintenance to the system. The Company is committed to continuing to provide
25 quality service in an environmentally responsible manner. It is our belief that the rates
26 requested are reasonable, fair, responsible, non-discriminatory and justified in light of
27 the consumer needs, the Company's requirements to meet the customers' needs, and
28 the Company's commitment to do so in compliance with the regulations of this
29 Commission, DHEC, and other regulatory agencies with jurisdiction over CUC.
30

1 **Q. HAS THE COMPANY HAD TO BORROW MONEY TO FUND NORMAL**
2 **OPERATIONS?**

3 **A.** Yes, recently the owners loaned the Company \$60,000 to have the capability to
4 continue to pay our bills and perform normal operations. It is important for the
5 company's financial viability to have adequate service rates that will allow the
6 Company to rebuild adequate cash reserves that may be needed in the event of
7 emergency or extraordinary repairs.

8
9 **Q. WILL THE COMPANY NEED TO BORROW MORE MONEY BEFORE NEW**
10 **RATES ARE PUT IN PLACE?**

11 **A.** There is good chance that additional funds will be needed to continue normal
12 operations. BJWSA new wholesale rate is now in effect and will add to our present
13 operating deficit. Also, revenues are presently down from 2004. Customer overall
14 consumption is declining, in particular irrigation usage.

15
16 **Q. PLEASE DESCRIBE THE PROPOSED ADJUSTMENTS IN RATES AND**
17 **CHARGES FOR WATER AND SEWER SERVICE.**

18 **A.** The proposed changes in the Company's water and sewer schedules include an
19 increase in the base monthly charges as follows:

20 **PRESENT RATES**

PROPOSED RATES

WATER		WATER	
Water Base Charge 3/4" Meter (Includes 2,500 gallons)	\$13.50	Water Base Charge 3/4" Meter (Includes 0 gallons)	\$20.00
Water Base Charge 1" Meter (Includes 2,500 gallons)	\$20.00	Water Base Charge 1" Meter (Includes 0 gallons)	\$25.00
Water Base Charge 1-1/2" Meter (Includes 2,500 gallons)	\$20.00	Water Base Charge 1-1/2" Meter (Includes 0 gallons)	\$30.00
Water Base Charge 2" Meter (Includes 2,500 gallons)	\$30.00	Water Base Charge 2" Meter (Includes 0 gallons)	\$35.00
Water Commodity Charge per 1,000 gallons	\$2.85	Water Commodity Charge per 1,000 gallons	\$3.70
SEWER		SEWER	

Sewer Base Charge 3/4" Meter (Includes 2,500 gallons)	\$13.50	Sewer Base Charge 3/4" Meter (Includes 0 gallons)	\$20.00
Sewer Base Charge 1" Meter (Includes 2,500 gallons)	\$20.00	Sewer Base Charge 1" Meter (Includes 0 gallons)	\$25.00
Sewer Base Charge 1-1/2" Meter (Includes 2,500 gallons)	\$20.00	Sewer Base Charge 1-1/2" Meter (Includes 0 gallons)	\$30.00
Sewer Base Charge 2" Meter (Includes 2,500 gallons)	\$30.00	Sewer Base Charge 2" Meter (Includes 0 gallons)	\$35.00
Water Commodity Charge per 1,000 gallons	\$2.85	Sewer Commodity Charge per 1,000 gallons	\$3.70

Q. EXPLAIN WHY YOUR REQUESTED RATE STRUCTURE EXCLUDES USAGE ALLOWANCE IN THE BASE CHARGES AND RAISES THE BASE CHARGES.

A. First of all, by having more of the Company's cost to operate covered by the base water and sewer charges, the Company's overall revenues will become more stable. For a small company such as ours, having stable revenues is important. Presently, our rate structure lends its self to considerably less revenues when the customer base decides to use less water, particularly during wet irrigation seasons. During our test year, irrigation revenues amounted to 36% of our total revenues. When irrigation consumption goes down even a small amount, the Company is adversely impacted. An example of this problem is during the first six months of this year(2005), our overall revenues were down 13% compared to the first six months of 2004 even though we have more customers in 2005 than we had in 2004. During June, 2005, (June is normally a higher than average consumption month) revenues were 13% less than the June, 2004 revenues. This decline is primarily due to a decline in customer consumption in general and particularly a decline in irrigation usage. We urge the Commission to grant our request to eliminate the usage allowance in the base charges and allow our requested higher base charges. This will surely help to put the Company on a more stable financial footing to insure the Company can continue to provide the services our customers expect and deserve.

1 **Q. WOULD YOU DESCRIBE THE AUTHORIZED SERVICE AREA OF CUC,**
2 **INC.?**

3 **A.** Callawassie Island is an approximately 800-acre residential and golf course
4 community consisting of approximately 641 building lots and Spring Island, is an
5 approximately 3,000-acre residential and golf course community consisting of
6 approximately 552 building lots. Callawassie Island is a mid to upper income
7 community consisting of homes valued at approximately \$250,000 up to and over
8 \$1,000,000. Spring Island is an upper income community consisting of mostly million
9 to multi-million dollar homes. These Islands are contiguously located in Beaufort
10 County. Each Island has its own wastewater treatment plant and the water distribution
11 system is common to both Islands. The wholesale water supply is provided by the
12 Beaufort Jasper Water and Sewer Authority through a master meter located at the
13 entrance of Callawassie Island. Also, the Company serves 31 residential lots, the gate
14 house, and two commercial office buildings collectively known as Chechessee Bluffs
15 located adjacent to the entrance of Callawassie Island with sewer service only. Water
16 supply to these properties is provided by Beaufort Jasper Water and Sewer Authority.
17

18 **Q. PLEASE DESCRIBE THE WASTEWATER TREATMENT PLANTS FOR**
19 **THE SERVICE AREAS.**

20 **A.** CUC has two advanced wastewater treatment plants, 260,000 GPD on Callawassie
21 Island and 100,000 GPD on Spring Island. Each plant includes an office/laboratory
22 building where certain water analyses are performed. The Callawassie plant also has
23 an office where customer billing and certain record keeping is managed. This building
24 also serves as a convenient place for customers to pay bills and get information
25 concerning their service. Each plant site includes an automatic standby generator
26 capable of providing electric power for the entire plant as well as the main pumping
27 stations that allows the plants to function properly in the event of power outage by the
28 local electricity provider. Each plant utilizes tertiary filters to provide high quality
29 effluent. The Callawassie plant uses chlorination for final disinfection while the
30 Spring Island plant uses the latest in ultraviolet technology for final disinfection. The
31 final effluents from both plants are recycled as irrigation water on the two islands' golf

1 courses. There are sixteen observation wells located on the golf courses from which
2 groundwater is analyzed every calendar quarter to insure there is no contamination to
3 groundwater caused by the wastewater effluent. The South Carolina DHEC discharge
4 permits for these two plants are among the most stringent for water quality issued by
5 DHEC.

6
7 **Q. PLEASE DESCRIBE THE SEWAGE COLLECTION FACILITIES THAT**
8 **COMPLETE THE WASTEWATER SYSTEMS IN THE SERVICE AREAS.**

9 **A.** The Callawassie sewage collection system includes 53,310 L.F.(10.1 miles) of gravity
10 sewers with 220 manholes and 16 pumping stations with 19,242 L.F.(3.6 miles) of
11 force mains. The Spring Island sewage collection system includes 89,419 L.F.(16.9
12 miles) of force mains and 2 pumping stations. Each home on Spring Island has an
13 individual sewage grinder station which CUC must also maintain. The total length of
14 sewer pipes that must be maintained by CUC personnel is 161,971 L.F.(30.7 miles).

15
16 **Q. PLEASE DESCRIBE THE WATER DISTRIBUTION FACILITIES THAT**
17 **COMPLETE THE WATER SYSTEMS IN THE SERVICE AREAS.**

18 **A.** The Callawassie water distribution system includes 67,660 L.F.(12.8 miles) of water
19 mains with 61 fire hydrants. The Spring Island water distribution system includes
20 128,658 L.F.(24.4 miles) of water mains with 128 fire hydrants. The total length of
21 water pipes that must be maintained by CUC operators is 196,378 L.F.(37.2 miles).

22
23 **Q. WHAT IS THE TOTAL LENGTH OF PIPE LINES THAT MUST BE**
24 **MAINTAINED BY CUC OPERATORS?**

25 **A.** 358,349 L.F.(67.9 miles)

26
27 **Q. DOES DHEC REQUIRE THAT ALL WATER AND SEWER LINES BE**
28 **FLUSHED ON A REGULAR BASIS?**

29 **A.** Yes, and in addition to the DHEC regulations, the local fire department flow tests the
30 water mains on an annual basis. The water required for flushing and flow testing of
31 the water and sewer lines normally amounts to 10% of our purchased water.

1
2 **Q. DOES THE WATER SYSTEM PROVIDE FIRE PROTECTION WATER TO**
3 **ALL HOMES IN THE SERVICE AREAS?**

4 **A.** Yes. The CUC systems are different than most PSC regulated water utilities in that its
5 water systems are built to high municipal standards and not the typical water system
6 that utilizes small pressure tanks and small diameter pipe lines. All of the CUC water
7 systems were designed so that every home is within 500 feet of a fire hydrant. The
8 Bluffton District Fire Department was consulted relative to design and minimum flow
9 requirements for every fire hydrant and the water systems were designed and sized
10 accordingly. Sixty-three percent of the pipe lines are 8" through 12" and thirty-two
11 percent are 6" diameter. The Fire Department has a fire station at the entrance of
12 Callawassie Island that serves CUC's customers. The fire hydrants on both islands are
13 pressure and flow tested annually by the Fire Department. It is estimated by a fire
14 department official that the average CUC water customer saves approximately \$300
15 annually on their homeowner fire insurance policies due to the fact that CUC water
16 systems are designed and built for available fire protection water.

17
18 **Q. DO YOU PROVIDE AN EMERGENCY PHONE NUMBER AVAILABLE TO**
19 **YOUR CUSTOMERS WHEN THE OFFICE IS CLOSED?**

20 **A.** Yes, During all non normal working hours a voice message informs the customer to
21 call a particular cell phone number for one of our operators. Our operators are on call
22 24/7.

23
24 **Q. HOW MANY CUSTOMERS AND OF WHAT TYPE DOES CUC**
25 **CURRENTLY SERVE?**

26 **A.** CUC currently serves 590 sewer customers, 648 water customers and 415 irrigation
27 customers.

28
29 **Q. DOES CUC RECEIVE ANY REVENUE FROM AVAILABILITY FEES PAID**
30 **BY LOT OWNERS NOT CURRENTLY RECEIVING SERVICE?**

31 **A.** Yes. We serve 428 sewer and 486 water availability customers.

1
2 **Q. ARE YOU AWARE OF ANY CUSTOMER DISSATISFACTION WITH CUC'S**
3 **WATER AND WASTEWATER SERVICE?**

4 **A.** No, I am not. In the event we receive complaints, it is our policy to rapidly dispatch
5 Company operators to the customer's location to remedy the problem. Billing
6 problems are normally resolved by our local manager. Customer requested bill
7 adjustments are normally made after consulting with the home office.
8

9 **Q. IS CUC PROVIDING WATER AND WASTEWATER COLLECTION AND**
10 **TREATMENT SERVICE TO ITS CUSTOMERS IN CONFORMITY WITH**
11 **THE REGULATIONS AND REQUIREMENTS OF SOUTH CAROLINA**
12 **DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL**
13 **("DHEC")?**

14 **A.** Yes. The water and wastewater systems are operated in accordance with the
15 regulations and requirements of DHEC. Also, all water testing and reporting are being
16 performed and are in compliance with all applicable permits.
17

18 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD?**

19 **A.** Yes. It is the responsibility of the stockholders/management to maintain the financial
20 integrity of the utility. There currently are no funds to provide for proper
21 maintenance, upgrades, and additions on a system that is twenty years old; or, to meet
22 requirements by the Department of Health and Environmental Control, (DHEC) or
23 natural hazards which may occur on coastal properties. We contend that these funds
24 are direly needed to properly maintain the quality of service to which our customers
25 are entitled.
26

27 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

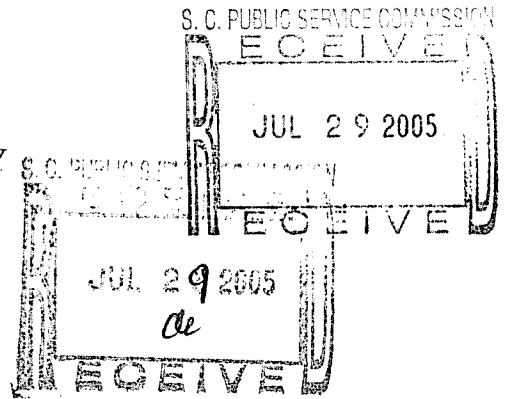
28 **A.** Yes it does.

TESTIMONY OF D. JOE MAREADY

FOR

CUC, INC.

DOCKET NO 2005-87-WS



IN RE: PROPOSED INCREASE IN RATES AND CHARGES

Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is D. Joe Maready and I reside at 161 Darby Way, West Columbia, S. C. 29170

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR EXPERIENCE?

A. I received a B. S. Degree in General Business from the University of North Carolina, Chapel Hill, North Carolina. I was employed with the Public Service Commission for almost twenty-nine (29) years. During that time I testified in excess of fifty (50) rate cases involving electric, telephone, water, sewer, radio common carriers, general commodities, bus and moving and storage companies. After my retirement in July 1999, I began working with Public Storage where I work as an assistant manager on Airport Road in West Columbia, South Carolina. Since my retirement, I have testified previously on four water utilities, on a selective basis, before this Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING CUC, INC?

A. I contracted with the Company to present the financial statements into evidence for the proposed increase in its rates and charges.

Q. PLEASE EXPLAIN EXHIBIT A.

A. The test period used in this case is the twelve months ending December 31, 2004.

Attached to my testimony is Company Exhibit A entitled "Operating Margins". The "per-books" figures are shown in Column (1). Revenues are \$617,510 and related expenses are \$655,151 for an Operating loss of (\$37,641). This produces an Operating Loss ratio on line 51 of (6.10%). After the adjustments in column (2) are added to the per book figures in column (1), adjusted revenues for the test year are \$518,924 and operating expenses are \$690,351 for an operating loss of (\$171,427). The operating loss ratio is negative (33.04%). Adjustment numbers (21) through (23) in column (4) show the effect of the proposed increase of \$356,158 as explained by Mr. Burnett, President of CUC, Inc., Revenues increase to \$875,082 and total expenses, after related taxes, are \$753,586 for a profit of \$121,496. Operating margin is 13.88%.

Q. YOU DID NOT USE CUSTOMER GROWTH ON EXHIBIT A. WHY%

A. The Company chose to use end-of-year customers in computing the proposed revenues instead of using average customers with a growth factor. Because of the vast disparity of adding an irrigation customer versus a water and sewer customer, we felt that using end of year was more appropriate because of the amount of consumption.

Q. WOULD YOU EXPLAIN THE ADJUSTMENTS YOU PROPOSE ON EXHIBIT A-1?

A. Yes. In the ensuing adjustments, I have attempted to maintain procedures advanced by prior decisions of this Commission along with adjustments that maintain the required standards of known and measurable. In some instances, where two or more adjustments are related, I have grouped them together.

Adjustment numbers (1) Water tap Fees (\$23,450, (2) Sewer Tap Fees (\$15,925), (12) Tap-on Expenses - Water (\$4,790, (13) Tap-on Expenses - Sewer (\$1,000) and

1 **Line 90, Column (6), Page 2 of 4 Pages, Exhibit A-1, Repairs and Maintenance**

2 **(\$33,585).** Company proposes to eliminate water and sewer tap fee revenues from total
3 revenues for rate making purposes amounting to \$39,375. During the test year, the
4 company deducted materials and supplies of \$4,790 for water taps and \$1,000 for sewer
5 taps. These tap costs are deleted. In order to deduct an additional amount, to equal tap
6 revenues, \$33,585 was deducted from Repairs and Maintenance Expenses. Company
7 proposes, then, that the deductions to Tap Fee Revenues equal the deductions to Tap Fee
8 Costs.

9 **Adjustment number (3) Availability Fees - Water (\$23,484) and Adjustment**

10 **number (4) Availability Fees - Sewer (\$20,784).** When a lot is sold by the real estate
11 company, the buyer contracts to pay an availability fee to CUC, Inc. These fees are not
12 regulated by this Commission and are, therefore, deleted.

13 **Adjustment number (5) EPA Charges (\$3,760) and line 98, page 2 of 4 pages,**

14 **Column (6), Repairs and Maintenance (\$3,760)** Company proposes to remove EPA
15 recoupment fees from this case. These fees are required to be passed on to customers as a
16 separate line item on the utility bill on a monthly basis. An equal amount of expenses are
17 also deducted from repairs and maintenance accounts.

18 **Adjustment number (6) Late Charges (\$2,144)** Late charges during the test year
19 amounted to \$2,558. A computer run charged \$2,144 to non-regulated operations--
20 primarily to availability fees. Company proposes that this amount of revenues be deleted
21 for ratemaking purposes.

22 **Adjustment number (7), Adjustments \$1,241.** During the test year, the company had
23 Uncollected Revenues (in the form of "Adjustments") of \$2,357. These are amounts that
24 at one time were recorded as revenues, but, when the amounts are deemed uncollectible,
25 the customers' due amounts are added into "Adjustments". In a separate computer run in

1 this account, Company found that \$1,241 applied to non regulated revenues. Company
2 is proposing that this amount be deleted. (Note that since this was a negative revenue
3 account, acceptance of this adjustment has the effect of increasing revenues.)

4 **Adjustment number (8) Grinder Station Profits (\$10,210)** During the test year, the
5 company had a gain from the sale of grinder stations. These are hardware items installed
6 by the home builder to minimize cutting away the roots of trees from the home to the
7 sewer connection. Since these sales are not regulated by the Commission, the profits are
8 eliminated.

9 **Adjustment number (9) Interest Income (\$70)** During the test year, the Company had
10 funds in the bank on which it drew interest. The funds are now depleted. Company,
11 therefore, proposes that the interest be deleted since these funds are no longer available.
12 In fact, the Company has borrowed money in order to continue operations.

13 **Adjustment number (10) Salaries and Benefits \$1,882** Field employees were given a
14 3% pay increase effective July1 of the test year. The pay increase includes payroll, FICA
15 and 401(K) retirement for one-half of a year, or, 1 1/2%.

16 **Adjustment number (11) Water Purchases from Beaufort-Jasper County Water**
17 **Authority \$54,352** The Company purchases water on a wholesale rate from Beaufort-
18 Jasper County Water Authority. During the test year, a second meter did not record the
19 proper amount of water consumption to the utility. To this date, the utility does not feel
20 that the Authority will have a retroactive collection for this deficient billing. Whether it
21 does or not, the fact still remains that on future consumption, now that the meter is
22 properly recording, the Utility will have to pay for the water consumed. Also, in June
23 2005, CUC received notice that effective July 1, 2005, the Authority will increase its rate
24 by \$0.24 per thousand gallons. This adjustment also includes these additional proposed
25 charges.

Line 104, page 2 of 4 pages, Column (6), Exhibit A-1, Repairs and Maintenance

(\$13,509) During the test year, the company leased its three service trucks and monthly lease payments were deducted as expenses. At the end of the lease, in December 2004, the Company purchased the trucks. The cost of the lease payments are deducted from expenses.

Adjustment (15) Insurance expense \$22,661 To annualize insurance costs for the test year. This includes primarily family coverage on all employees.

Adjustment number (16) Taxes - Other Than Income (\$338) To true-up gross receipts tax to include regulated revenues only. The rate used is \$.00711.

Adjustment number (17) Office and Related Expenses \$1,209 To annualize postage expense for the year based on regulated customer mailings throughout the test year. This adjustment also eliminates any cost of mailing bills to non-regulated customers.

Adjustment number (18) Depreciation Expense \$7,771. To annualize depreciation on all plant in service as of December 31, 2004 (The test year). This also includes depreciation on the service trucks purchased in December 2004.

Adjustment Number (19) Interest Expense \$1,407 To annualize interest expense on three service trucks purchased in December 2004 of the test year.

Adjustment Number (20) Rate Case Expense \$2,900 To allocate Rate Case Expenses of \$14,500 over a five-year period.

Adjustment Number (21) Proposed Water Revenues \$122,421 To adjust Water Revenues based on the Company's proposed rates. (See Application)

Adjustment Number (22) Proposed Sewer Revenues \$129,924 To adjust Sewer Sales Revenues based on the Company's proposed rates. (See Application)

Adjustment Number (23) Proposed Irrigation Revenues \$103,813 To adjust Irrigation Service Revenues based on the Company's proposed Irrigation Rates. (See

1 Application This service is provided for Irrigation service where the customer has
2 separate metered service from all other utility services.

3 **Adjustment Number (24) Gross receipts Tax \$2,532.** To increase Gross Receipts
4 Taxes based on the proposed increases in adjustments (21), (22) and (23) above at a rate
5 of \$.00711.

6 **Adjustment Number (25) Income Taxes \$60,703** To show the Income Tax effect based
7 on taxable income after the proposed revenues and expenses.

8
9 **Q. WOULD YOU DESCRIBE THE REMAINDER OF YOUR EXHIBITS?**

10 A. **EXHIBIT B COMPARATIVE INCOME STATEMENT** Comparative Income
11 Statements are shown for the twelve months ending December 31, 2003 and for the test
12 year 2004.

13 **EXHIBIT C BALANCE SHEETS** The financial positions of the utility are shown as
14 of December 31, 2003 and the test year December 31, 2004.

15
16 **Q DOES THAT CONCLUDE YOUR TESTIMONY?**

17 A. Yes, it does.

CUC, INC.
OPERATING MARGINS
FOR THE TEST PERIOD 12/31/04

COMPANY
WITNESS MAREADY
EXHIBIT A
PAGE 1 OF 1 PAGES

Column Numbers →

	(1)	(2)	(3)	(4)	(5)
	PER BOOKS	PRO FORMA			
	TOTAL	AND		EFFECT OF	AFTER
	OPERATIONS	ACCOUNTING	Adj.	PROPOSED	Adj.
		ADJUSTMENTS	No.	INCREASE	No.
	\$	\$		\$	\$
REVENUE ACCOUNTS					
Water Revenues	180,048	0	180,048	122,421	(21) 302,469
Sewer Revenues	147,565	0	147,565	129,924	(22) 277,489
Irrigation Revenues	191,762	0	191,762	103,813	(23) 295,575
Water Tap Fees	23,450	(23,450) (1)	0	0	0
Sewer Tap Fees	15,925	(15,925) (2)	0	0	0
Availability Fees - Water	23,484	(23,484) (3)	0	0	0
Availability Fees - Sewer	20,784	(20,784) (4)	0	0	0
EPA Charges	3,760	(3,760) (5)	0	0	0
Late Charges	2,558	(2,144) (6)	414	0	414
Adjustments	(2,357)	1,241 (7)	(1,116)	0	(1,116)
Grinder Station Revenue - Net	10,210	(10,210) (8)	0	0	0
Miscellaneous Revenues	251		251	0	251
Interest Income	70	(70) (9)	0	0	0
TOTAL OPERATING REVENUES:	617,510	(98,586)	518,924	356,158	875,082
EXPENSE ACCOUNTS					
Salaries, Wages and Benefits	263,502	1,882 (10)	265,384	0	265,384
Water purchased from BJCWA	114,435	54,352 (11)	168,787	0	168,787
Electric Power for Sewer	40,874	0	40,874	0	40,874
Tap-on Expenses - Water	4,790	(4,790) (12)	0	0	0
Tap-on Expenses - Sewer	1,000	(1,000) (13)	0	0	0
Repairs and Maintenance	104,142	(50,854) (14)	53,288	0	53,288
Insurance Expense	74,221	22,661 (15)	96,882	0	96,882
Taxes - Other than Income	8,412	(338) (16)	8,074	2,532 (24)	10,606
Office and related Expenses	29,514	1,209 (17)	30,723	0	30,723
Depreciation Expense	13,505	7,771 (18)	21,276	0	21,276
Interest Expense	0	1,407 (19)	1,407	0	1,407
Miscellaneous Expenses	756	0	756	0	756
Rate Case Expense		2,900 (20)	2,900	0	2,900
Income Taxes	0	0	0	60,703 (25)	60,703
TOTAL OPERATING EXPENSES	655,151	35,200	690,351	63,235	753,586
OPERATING INCOME (LOSSES)	(37,641)	(133,786)	(171,427)	292,923	121,496
OPERATING MARGINS (LOSSES)	-6.10%		-33.04%		13.88%

CUC, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING 12/31/04

Column Numbers----->

DESCRIPTION OF ADJUSTMENTS:

PROPOSED REVENUES AND OTHER SOURCES OF INCOME							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Water	Sewer	Availa-	Availa-	EPA	Late	Adjust-	Gringer
Tap	Tap	bility Fees	bility Fees	Charges	Charges	ments	Station
Fees	Fees	Water	Sewer				Profits
\$	\$	\$	\$	\$	\$	\$	\$

20 Company proposes to eliminate water
21 and sewer tap fee revenues from total
22 revenues for rate making purposes. Note
23 that an equal amount of expenses are
24 deducted on line 10 below so that the
25 revenues for tap fees collected and the
26 related tap costs equal zero.

(23,450) (15,925)

28 When a lot is sold to a buyer, a contract
29 is agreed that the buyer will pay availa-
30 bility fees until a house is built and
31 the owner begins paying monthly rate
32 approved by this Commission. These
33 availability fees are not regulated by
34 the PSC of South Carolina and are,
35 therefore, deleted from revenues.

(23,484) (20,784)

37 The Company proposes to remove DHEC
38 recoupment fees from this case. These
39 fees are required to be passed on to
40 customers as a separate line item on
41 the utility bill (See line 8)

(3,760)

43 To decrease Late Charges that apply to
44 Availability Fees

(2,144)

46 Company had \$2,357 in uncollectables
47 during the test year. Company proposes
48 to delete only the amount that pertains
49 to non-regulated operations.

1,241

51 During the test year, the company had
52 a gain from the sale of grinder
53 stations. These contracts are not
54 approved by this Commission and are
55 deleted.

(10,210)

TOTAL ADJUSTMENTS:

(23,450) (15,925) (23,484) (20,784) (3,760) (2,144) 1,241 (10,210)

ADJUSTMENT NUMBERS ON EXHIBIT A,
COLUMN (2):

(1) (2) (3) (4) (5) (6) (7) (8)

CUC, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING 12/31/04

COMPANY
WITNESS MAREADY
EXHIBIT A-1

PAGE 2 OF 4 PAGES

Column Numbers-----	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Salaries and Benefits	Water Purchases	Tap-on Expenses- Water	Tap-on Expenses- Sewer	Repairs and Mainte- nance	Insurance Expense	Taxes - Other Than Income
DESCRIPTION OF ADJUSTMENTS:	Interest Income							
	\$	\$	\$	\$	\$	\$	\$	\$
78 To eliminate interest income on cash	(70)							
79 that has been depleted since the test								
80 year ending December 31, 2004.								
81								
82 Four field employees were given a 3%		1,882						
83 raise effective July 2004. The total								
84 includes the wage increase and related								
85 FICA and 401K.								
86								
87 To adjust for water costs due to under-			54,352					
88 billing by the wholesale supplier and								
89 an increase in water cost of \$.24/M Gals.								
90								
91 In adjustments (1) and (2) above, tap-on				(4,790)	(1,000)	(33,585)		
92 revenues were deleted from total								
93 revenues per Commission practice.								
94 Company proposes to delete test year								
95 costs associated with the tap								
96 installations (Total equals \$39,375)								
97								
98 In adjustment Number (5) above, the						(3,760)		
99 Company proposed to remove revenues								
100 associated with DHEC required recoup-								
101 ment fees. Company proposes to delete								
102 DHEC related costs from expenses.								
103								
104 During the test year, the company leased						(13,509)		
105 its three service trucks and monthly								
106 lease payments were deducted as								
107 expenses. At the end of the lease, in								
108 December 2004, the Company purchased								
109 the trucks. The amounts for the lease								
110 payments are deducted from expenses.								
111								
112 To annualize Insurance costs for the test							22,661	
113 year. This includes primarily family								
114 coverage on all employees.								
115								
116 To true-up gross receipts tax to								(338)
117 include regulated revenues only								
118								
119								
120 TOTAL ADJUSTMENTS	(70)	1,882	54,352	(4,790)	(1,000)	(50,854)	22,661	(338)
121								
122								
123 ADJUSTMENT NUMBERS TO EXHIBIT A,	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
124 COLUMN (2):								
125								
126								

CUC, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING 12/31/04

Column Numbers-----	(1)	(2)	(3)	(4)
	Office and Related Expenses	Depre- ciation Expense	Interest Expense	Rate Case Expense
	\$	\$	\$	\$
146 To annualize postage expense for the year	1,209			
147 based on regulated customer mailings				
148 throughout the test year. This adjust-				
149 ment also eliminates any cost of mailing				
150 bills to non-regulated customers.				
151				
152 To annualize depreciation on all plant in		7,771		
153 service as of December 31, 2004. This				
154 includes depreciation on the service				
155 trucks acquired in December 2004.				
156				
157 To annualize interest expense on three			1,407	
158 service trucks purchased in December				
159 2004 of the test period.				
160				
161 To allocate Rate Case Expenses of				2,900
162 \$14,500 over a five-year period				
163				
164				
165				
166				
167				
168				
169				
170				
171				
172				
173				
174				
175				
176				
177				
178				
179				
180				
181				
182 TOTAL ADJUSTMENTS	1,209	7,771	1,407	2,900
183				
184 ADJUSTMENT NUMBERS ON EXHIBIT A,	(17)	(18)	(19)	(20)
185 COLUMN (2):				
186				
187				
188				
189				

CUC, INC.
ACCOUNTING AND PROFORMA ADJUSTMENTS
FOR THE TWELVE MONTHS ENDING 12/31/04

Column Numbers-----	(1)	(2)	(3)	(4)	(5)
	EFFECT OF PROPOSED INCREASE				
	Proposed Water Revenues	Proposed Sewer Revenues	Proposed Irrigation Revenues	Gross Receipts Taxes	Income Taxes
	\$	\$	\$	\$	\$
209 To adjust Water Revenues based on the	122,421				
210 Company's proposed rates.					
212 To adjust Sewer Sales Revenues		129,924			
213 based on the Company's proposed rates.					
215 To adjust irrigation Service Revenues			103,813		
216 based on the Company's proposed					
217 Irrigation Rates. This service is provided					
218 for irrigation service where the customer					
219 has seperate metered service from all					
220 other utility services.					
222 To increase Gross Receipts Taxes based				2,532	
223 on the above proposed increases above.					
224 The rate used is the Commission rate					
225 for assessments in 2004.					
227 To show the Income Tax effect based on					60,703
228 taxable income on the proposed					
229 revenues and expenses after the proposed					
230 increases above.					
245 TOTAL ADJUSTMENTS	122,421	129,924	103,813	2,532	60,703
247 ADJUSTMENT NUMBERS TO EXHIBIT A,	(21)	(22)	(23)	(24)	(25)
248 COLUMN (4):					

COMPANY
WITNESS MAREADY
EXHIBIT B

CUC, INC.
COMPARATIVE INCOME STATEMENTS
FOR THE PERIODS DECEMBER 31, 2002 AND 2003

	<u>DECEMBER 31, 2004</u>		<u>DECEMBER 31, 2003</u>	
	\$	\$	\$	\$
13 SERVICE REVENUES:				
14 Water Revenues	395,293		346,364	
15 Sewer Revenues	165,992		154,173	
16 Water Tap Fees	23,450		22,800	
17 Sewer Tap Fees	15,925		10,000	
18 EPA Charge Revenues	3,759		3,619	
19 Service Charge Past Due Accounts	<u>2,558</u>		<u>2,287</u>	
20 Total Service Revenues		606,977		539,242
21				
22 OTHER REVENUES -- NET				
23 Grinder Station Revenues	19,250		38,500	
24 Grinder Stations Purchased	<u>(9,040)</u>		<u>(41,208)</u>	
25 Net Other Revenues (losses)		10,210		(2,708)
26				
27 OTHER MISCELLANEOUS INCOME:				
28 Discounts Taken	27		4	
29 Miscellaneous Income	224		1,035	
30 Interest Income	<u>70</u>		<u>387</u>	
31 Total Other Miscellaneous Income:		<u>321</u>		<u>1,426</u>
32				
33 TOTAL REVENUES:		617,508		537,960
34				
35 LESS: OPERATING EXPENSES:				
36 Operating and Administrative Expense:	641,647		584,797	
37 Interest Expense:	0		685	
38 Depreciaion Expense	<u>13,506</u>		<u>8,626</u>	
39 Total Operating Expenses:		<u>655,153</u>		<u>593,424</u>
40				
41 OPERATING PROFITS (LOSSES):		<u>(37,645)</u>		<u>(55,464)</u>
42				
43				
44				

COMPANY
WITNESS MAREADY
EXHIBIT C

CUC, INC.
COMPARATIVE BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2003

<u>ASSETS</u>			
		<u>DECEMBER 31, 2004</u>	<u>DECEMBER 31, 2003</u>
		<u>\$</u>	<u>\$</u>
10 CURRENT ASSETS			
11 Cash in Bank	26,313	48,944	
12 Customer Accounts Receivable	32,948	32,053	
13 Grinder Stations on Hand	4,058	4,058	
14 Total Current Assets:	63,319	85,055	
16 FIXED ASSETS			
17 Sewer Plant	111,000	111,000	
18 Sewer Pump Stations	38,346	38,346	
19 Sewer Mains	82,209	82,209	
20 Water Mains	49,043	49,043	
21 Total Fixed Assets	280,599	280,599	
22 Less: Depreciation Reserve:	(276,376)	(276,376)	
23 Total Net Plant	4,223	4,223	
25 OTHER ASSETS:			
26 Vehicles	88,060	59,132	
27 Equipment	60,062	60,062	
28 Total Other Assets:	148,122	119,194	
29 Less: Depreciation Reserve	108,625	(108,625)	
30 Total Other Assets - Net:	39,497	10,569	
32 TOTAL ASSETS:	107,038	99,847	
35 <u>LIABILITIES</u>			
37 CURRENT LIABILITIES:			
38 Accounts Payable	21,845	20,756	
39 Accrued wages and withholdings	2,747	5	
40 Current portion of Long Term Debt	9,167	0	
41 Total Current Liabilities:	33,759	20,761	
43 Notes Payable - Vehicles - Net	18,333		
45 SHAREHOLDERS' EQUITY			
46 Capital Stock	25,500	25,500	
47 Contributed Capital - Water Taps	326,450	303,000	
48 Contributed Capital - Sewer Taps	196,200	180,275	
49 Retained Earnings	(493,204)	(429,689)	
50 Total Stockholders' Equity	54,946	79,076	
52 TOTAL LIABILITIES AND EQUITY:	107,038	99,847	